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Before the
Federal Communications Commission
Washington D.C. 20554

In the Matter of

Federal State Joint Board on
Universal Service

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CC Docket No. 96-45
(Report to Congress)

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Comments of
Aliant Communications Co.

January 26, 1998

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List A B C D E

Aliant Communications Co. ("Aliant") respectfully submits these comments on the above docket regarding the Joint Board Report to Congress on universal service. Aliant Communications is a local exchange carrier with network facilities in southeast Nebraska. It serves 263,601 access lines in a contiguous 22-county area, with 136 communities. Nearly 2/3 of the communities in Aliant's service area have less than 500 access lines and over 30,000 of Aliant's customers are rural customers. However, because Aliant also serves Lincoln, Nebraska, a metropolitan area with around 227,000 access lines, it has not been eligible for universal service support. Instead, Aliant is forced to internally subsidize its high-cost, rural exchanges by over-pricing other rates and services, primarily its urban business rates. Aliant's comments on the progress of universal service since passage of the 1996 Telecommunication Act center on three issues: the percentage of support provided by federal mechanisms, contribution to the support and eligibility for it.

With the passage of the Telecommunications Act of 1996 and the introduction of competition, Aliant finds itself in a vulnerable competitive position. Its relatively low-cost, urban, business customers in Lincoln are ripe for competitors to "cherry pick" them away. If Aliant loses these relatively low-cost, high-volume customers, it will no longer be able to internally subsidize its high-cost, rural exchanges. However, it will not be eligible for universal service support. As a result, Aliant could be forced to raise its rural customers' rates to cover the high costs. Even the most conservative models and studies indicate that the costs to

provide service to these high-cost rural areas is beyond that normally considered “affordable.” Aliant believes it is unfair for the Federal Communications Commission (the “Commission”) to treat Aliant’s rural customers differently than those served by a “rural company,” that is eligible for universal service. Failure to address this issue is sending the wrong message to mid-size companies like Aliant: sell these rural exchanges, so they can be served by a rural company that is eligible for support. Aliant has a long tradition and commitment to rural Nebraska and does not believe it should be forced to abandon this commitment because of poor public policy choices.

Aliant believes it is imperative that the Commission focus the universal service debate on the customers it is intended to benefit, rather than the size of the company that serves those customers. Universal service support should not be deprived from high-cost customers of non-rural companies nor should it be effectively deprived from high-cost customers in sparsely populated states, such as Nebraska where Aliant is headquartered. However, the Commission’s eligibility requirements and its decision to place 75% of the universal service burden on the states will do just that.

The 75/25 funding split is of tremendous concern to Aliant. The excessive pressure on the state universal service fund will force customers in sparsely populated states, like Nebraska, to shoulder an unmanageable burden. Although customers in Nebraska may see “affordable” local service rates on their bills,

they may also pay a universal service surcharge nearly equal to the amount of their phone rates. A universal service surcharge of such magnitude could double the cost of their phone service, making it "unaffordable" to many customers. The only other alternative for funding universal service in Nebraska is a universal service tax. However, Nebraska has a small population base -- around 1.5 million people spread over a geographic area of over 77,000 square miles -- and has very little, if any, additional taxing capacity.

The probable size of a state universal service fund in a rural state like Nebraska will greatly disadvantage not only its high-cost customers, but all customers. Regardless of how it is collected, customers in sparsely populated states will be paying exorbitant amounts for their service, while more densely populated states will have little need for a universal service fund. In addition, pressure on state policy makers to keep the fund at a manageable size may continue to prevent mid-size companies like Aliant, which has traditionally been able to fund its high cost areas through complex implicit funding schemes, from receiving support. Therefore, the high-cost, rural customers that Aliant serves could be doubly disadvantaged: forced to contribute exorbitantly to the universal service fund, but not eligible for any of its intended benefits, either state or federal. Burdening rural states, like Nebraska, with 75% of its universal service needs will may result in unaffordable phone service or overly burdensome taxes in those states.

In addition, Aliant urges the Commission, when considering *eligibility* for universal service, to continue focusing the debate on the needs of rural customers, rather than rural companies. Congress intended for universal service support to be used “for the provision, maintenance, and upgrading of facilities and services . . .”¹ Therefore, facilities-based companies that provide dial tone to high-cost customers should be eligible to receive universal service support. In other words, *all* facilities-based local exchange carriers should be eligible to receive support, and, in cases where wireless service is the best option for local service and its costs are above the benchmark, wireless companies could be eligible.

When considering who should *contribute*, Aliant reiterates the focus on customers. The most needy customers should not be expected to provide the largest quantity of the funds. Rather, the burden of universal service should be placed on those customers that can afford discretionary services. Therefore, in addition to local exchange carriers, all companies that provide discretionary services, which require use of the local exchange facilities, should be required to contribute to universal service. Since the services of interchange carriers, wireless carriers, and Internet service providers all rely on the facilities of local carriers, and because they provide services that are above and beyond basic local service, these companies all should be required to contribute to universal service.

¹ Communications Act of 1934, Section 254(e).

Congress intended universal support to ensure that our nation's rural areas were not denied access to state-of-the-art communications services because of high rates. Aliant has been a leader in providing the highest quality facilities and services to its high-cost, rural customers. Aliant would like to continue this commitment, but the Commission must make every effort to see that rural customers, not just rural companies, are the focus of this debate. Moreover, the Commission needs to re-examine the critical role the federal government has historically played to ensure that financial resources are equitably distributed.

Respectfully submitted,

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